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**INFORMED QUESTIONS CONCERNING THE VIETNAMESE ECONOMY**

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### **Introduction**

The failure of the Soviet-style centrally planned economy during the 1970's and 1980's forced Vietnam's leaders to adopt a policy of renovation (doi moi) in December 1986. By 1989 liberalization of the economy began in earnest, including privatization of agriculture, abolishment of subsidies and price controls for state run enterprises, reformation of the banking system, and lifting restraints on internal and international trade.

The changes toward a market economy had dramatic results, with the country suddenly switching from a major importer of rice to the world's third largest exporter, the annual average rate of inflation falling from 308% in 1988 to 35% in 1989, and Gross Domestic Product (GDP) growth of 8% per year.

The Vietnamese economy faltered somewhat during and after the Asian economic crisis but GDP continued to grow, hitting a low of 4.8 percent in 1999. Economic reform has slowed somewhat since the Asian financial crisis, but Vietnam continues to liberalize their economy and the long-term outlook is bright.

### **Domestic Economic Issues**

The Pacific Economic Cooperation Council (PECC) Economic Outlook for 2002-03 estimated the Vietnamese (GDP) would grow at roughly 7.0 percent in 2002 and 7.5 percent in 2003. Domestic consumption accounted for over half of the GDP increase in each year. During the same timeframe, the PECC estimated the inflation rate would increase from 0.8 percent in 2001 to between 5 and 7 percent in 2002 and 2003 respectively. The report also reflected an actual increase in government expenditures in

the year 2000, up to 25.5 percent of GDP, while total government revenue was 20.1 percent of GDP.

1. How important is foreign investment to achieve the projected level of growth? How important is U.S. investment?
2. What level of inflation can the economy sustain before domestic consumption begins to fall? What policies are in place to control inflation?
3. If domestic consumption does not reach the anticipated levels, can increased exports sustain the anticipated levels of GDP growth?
4. How does the budget deficit impact Vietnamese economic policies?
5. Are state owned enterprises (SOEs) profitable? Can privatization of SOEs increase profitability and close the budget deficit?

The Vietnam News Agency said that the development gap between ethnic groups living in primarily mountainous areas and Vietnamese living primarily in low-lying areas had been narrowed. The news release went on to say the rate of poor households reduced annually by 4-5 percent. This improvement was attributable at least in part to collateral-free loans and preferential interest rates from commercial banks as well as on-going national programs apparently designed to raise the economic floor of those regions. The Vietnam News Agency highlighted development of large-scale fruit and industrial tree-growing areas apparently contributing to a growth in local industry of 15-20 percent from 1996-2000.

1. How pronounced is the economic gap between the mountainous regions and the lowlands?

2. What percentage of poverty reduction was achieved with grants versus commercial investment to stimulate growth of industry?

3. Are the government programs contributing directly to individuals or do they target regional infrastructure such as roads and electrification?

4. How durable is the improvement in the economic status of the mountainous regions? Are the agricultural based industries sustainable?

5. Are there non-agricultural industries in the area? How sustainable are those industries?

6. What role, if any, has foreign investment had in this area?

In a unrelated news item reported on the Vietnamese radio text web site, six of the poorest northern mountainous provinces have agreed to completely cease planting opium poppies and replace them with other crops. The aim is to cut the poverty rate in these provinces to 17 per cent by 2005.

1. Given the relatively unsuccessful efforts of other countries to discourage production and trafficking in the drug trade, what is the likelihood of success?

2. Is the income from the opium trade counted when determining relative poverty in the region? If opium poppy cultivation is replaced with other crops, will the real wealth of the area residents decrease? If yes, is the government prepared to bridge the gap?

The Economist in its 12 September 2002 edition cited the arrest of more than 100 government officials, some 50 police officers suspended from duty, and two members of the Central Committee expelled from the ruling Communist Party on charges of corruption. The article went on to say the Vietnamese government estimated that

bureaucrats steal at least 20% of infrastructure spending. At the National Assembly in July 2002, the prime minister, the speaker, and the secretary-general of the Communist Party all identified corruption as one of the government's main challenges.

1. What are the current government estimates of the scope of corruption?
2. What government policies are in place to combat corruption? How successful are those policies?
3. What impact has corruption had on foreign investment in Vietnam? Would the level of investment increase substantially if the specter of widespread corruption were lifted?

In July 2000, Vietnam opened the Securities Trading Centre in Ho Chi Minh City, a stock market trading the shares of four small firms. The number of listed firms has now risen into the teens, and government bonds are also traded.

1. What role does the stock market currently have in the Vietnamese economy? What role should the stock market have in the future?
2. Are there plans to liberalize the rules on foreign ownership of companies listed with the Securities Trading Centre?

The 25 April 2002 edition of the Asia Times identified Ho Chi Minh City as being Vietnam's business and economic hub, while Hanoi is the governmental center of the country.

1. Are there economic inequalities between the northern and southern portions of the country analogous to the inequalities between the mountainous and low-lying regions? If so, why do those inequalities exist?
2. Are there policies in place to eradicate geographic economic inequalities?

The Economist Intelligence Unit reported that the four big state-owned commercial banks account for around 75% of all credit in Vietnam. They have large amounts of non-performing loans (NPLs), the result of the pressure they face to lend to SOEs even when commercial criteria might dictate otherwise. The Asian financial crisis in 1997 was precipitated by similar NPL circumstances in other countries in the region. Recent World Bank and International Monetary Fund (IMF) loans are designed in part to absorb a majority of the NPLs.

1. What policies are in place to prevent a repeat of the Asian economic meltdown from originating in Vietnam?
2. How does the government plan on resolving the NPL issue? Are World Bank and IMF loans sufficient to retire the bulk of NPLs?
3. What is the measure of public confidence in the banking system? What is the current level of public confidence? What guarantees are in place to protect depositors?

### **Regional Economic Issues**

According to a 3 March 2003 news release concerning the just completed visit of Singaporean Prime Minister Goh Chok Tong, Singapore is not only a close neighbor but also perhaps Vietnam's most important business partner. The two countries have signed seven cooperative agreements since 1973 including the Vietnam-Singapore Cooperation Council, the bilateral economic cooperation group, and a task force to assist Vietnam's infrastructure development. Since 1996, Singapore has been the largest investor in Vietnam with 310 projects capitalized at \$7 billion, of which the \$210 million Vietnam-

Singapore Industrial Park is apparently considered a model in management and attraction of investment capital.

1. What economic policies is Vietnam pursuing to foster continued Singaporean investment? Does continued Singaporean investment hinge on Vietnamese economic reforms leading to a market economy?
2. In which areas does Vietnam most desire Singaporean investment (infrastructure, manufacturing, science and technology, human resources development, tourism, or finance and banking)?
3. Does Vietnam see Singapore as a potentially lucrative export market, or primarily as a source of investment capital?
4. What has been the most positive effect of Singaporean investment on the Vietnamese economy?
5. Is Singapore's technology based economy a possible model for the Vietnamese economy?

In January 1992 the Association of Southeast Asian Nations (ASEAN) created the ASEAN Free Trade Agreement (AFTA). The strategic objective of AFTA is to increase the ASEAN region's competitive advantage as a single production unit. The elimination of trade barriers among member states is expected to promote greater economic efficiency, productivity and competitiveness. Vietnam joined ASEAN in July 1995 and under the terms of AFTA, Vietnam has to reduce tariff rates on selected goods to between zero and five percent by 2006.

1. How important is the AFTA to Vietnamese economic development? What percentage of Vietnamese trade with ASEAN is affected by the tariff reduction scheme?



2. What are some of the consequences of the AFTA to the Vietnamese economy? What are some of the benefits of the AFTA to the Vietnamese economy?

3. Was the AFTA part of the price of joining ASEAN?

ASEAN and China recently hosted a forum on an ASEAN-China Free Trade Agreement (FTA). The stated objective of the FTA is similar to the AFTA objectives, primarily promoting the global competitiveness of the signatories and improving the investment environment.

1. Since China is already one of the top three trading partners with Vietnam, would a FTA produce any positive changes in the relationship? Any negative changes?

2. Does ASEAN fear economic domination by China? Is China going to replace Japan as the economic engine of Asia?

### **U.S. Bilateral Trade Issues**

On 11 December 2001 a bilateral trade agreement between Vietnam and the US became effective. The agreement reduces U.S. tariffs on Vietnamese goods to levels of most other countries. In return, the Vietnamese must significantly liberalize their economy including phased reduction of tariffs on imported U.S. goods, protection of U.S. intellectual rights, more access to the services sector for U.S. firms and other measures designed to increase U.S. access and competitiveness in the Vietnamese economy. The agreement was expected to roughly double Vietnamese exports to the U.S. in the first year, while attracting more foreign investment to Vietnam.

1. Has the agreement resulted in a significant increase in Vietnamese exports to the U.S.? Has the U.S. become the number one trading partner with Vietnam?

2. Did foreign investment, particularly from the U.S., increase in 2002? If so, what impact has that had on the Vietnamese economy?
3. How important are U.S. relations to Vietnamese economic development?
4. Did the trade agreement with the U.S. force economic changes that were not previously planned? Did the agreement accelerate the timeline of economic liberalization?
5. What policies are in place to promote protection of U.S. intellectual property? How is the effectiveness of those policies measured?

### **Global Economic Issues**

According to Vietnam Foodstuff Association president Truong Thanh Phong, Iraq has become the largest importer of Vietnamese rice.

1. What is the impact to the Vietnamese economy of a war in Iraq? Can Vietnam replace the Iraqi market if there is an interruption in the flow of goods?
2. How important are agricultural exports to the overall economy?
3. How has the global war on terrorism affected other aspects of the Vietnamese economy?

Vietnam began the process for acceptance in the World Trade Organization (WTO) in 1995. In 1996 they tabled their request until 2002. In April 2002 the process began again, including bilateral negotiations with 16 member countries. Vietnam has a current goal of being accepted to the WTO by 2005.

1. What is the status of Vietnam's accession to the WTO?
2. How important is WTO membership to the continued growth of the Vietnamese economy?

3. What WTO required changes to the Vietnamese economy are yet to be accomplished? What impacts will those changes have on continued economic growth?

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